

NHS Carbon and Energy Fund Scotland (CEFS)

Outline for Health Boards wishing to consider using the CEFS



December 2012

Introduction

The Carbon and Energy Fund Scotland is a NSS and NHS initiative to make it easier for Health Boards to implement energy infrastructure upgrades, repaid through guaranteed savings. The CEFS covers Scotland and Northern Ireland (with the normal safeguards against cross subsidisation .) The way that the CEFS helps Health Boards (and the Health and Social Care Trusts in Northern Ireland) is by:

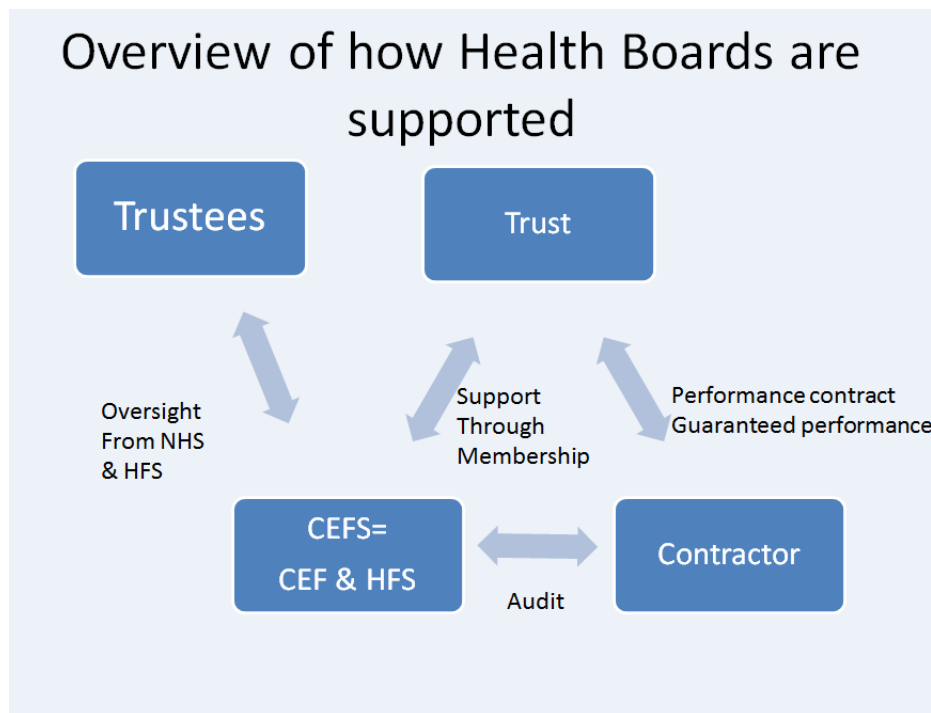
1. Providing skilled advisors to help Health Boards with their projects for the entire life of the project
2. Giving member Health Boards the use of the Fund's proven Energy Services Performance contract, that transfers risk, guarantees savings and has been shown to be off balance sheet under IFRS
3. Giving member Health Boards usage of the CEF national framework procurement model, so that procurement is quick, with a significantly reduced chance of challenge
4. Providing a source of funding if the Health Board does not want to use its own funding, or when the bidder cannot provide better funding or grants to support the project
5. Supporting the Health Board team by overseeing the installation phase of the project and certifying practical completion
6. Auditing the project monthly, quarterly and annually so as to prove the delivery at all times during the contract life
7. Providing legal support for the process of making the standard project agreement, project specific to the Health Board's needs
8. Recovering all CEFS costs from within the contractor payment, so that the Health Board faces no advisor bills, and only has to pay for any part of the project when the project is installed, proven and handed over to operations
9. Managing the CEFS framework leading to fewer procurement issues and contractor problems.

How the CEFS works

The CEFS is a vehicle to bring together the specialist expertise from the HFS and from earlier projects in and around the NHS, so that all Health Boards can benefit, using a scheme designed for the special requirements in Scotland and Northern Ireland. Rather than every Health Board having to do their own procurement for advisors and contractors, to pay lawyers etc, the CEFS brings it all together with a source of 15 to 25 year funding, which is currently hard to find.

Like Salix, the funding is repaid throughout the life of the contract, but unlike Salix, the Health Boards costs are repaid through guaranteed savings underwritten by the contractor using the CEF's proven contract. Most Health Boards find they get new plant for old, and make an annual cash saving too.

The route to working with the CEFS is to seek membership, which then makes all the support of the CEFS available to the Health Board for the entire procurement, installation and savings monitoring period of the contract



Timescales

Projects under the CEFS are being released in tranches each approximately 9 to 12 months apart. Each tranche starts when the previous tranche go to contract – a saving of over a year compared to a standalone OJEU process. The reason for having tranches is to ensure that the HFS, CEFS and the specialist contractors can all cope with the increased number of projects in the most efficient way.

The Tranches are as follows:

- Tranche 1 Q4 2012/3 Up to 4 projects
- Q3/4 2013/4 Up to 5 projects

After tranche 2 there is expected to be a tranche 3 in 2014/5 and then regularly for as long as there is demand in the Scotland and Northern Ireland, and then again as the completed projects reach the stage of being upgraded themselves.

The first Tranche of hospitals in England under the CEF includes Addenbrookes, New Cross, Royal Berkshire, Good Hope, Warrington and Halton. Together these are investing £55m into NHS energy infrastructure of which £7.9m is NHS money and the rest from the CEF. The following hospitals are part of tranche 2 : Grantham, Imperial Hammersmith, Arrowe Park, Clatterbridge, QEMC Notts,

Rampton, Airedale, Yeovil, East Cheshire and Darent Valley. This tranche is conservatively expected to invest a further £30m into NHS energy infrastructure

The First projects under the CEFS are planned to include Inverclyde, Cornhill, Forrester and St Johns and may go on to include Ninewells, the Royal Alexandra and Ailsa Hospitals, an initial investment at least £10m into improving the Carbon and Energy infrastructure of the NHS in Scotland, repaid through guaranteed savings

Preparing a Health Board to use the CEFS OJEU compliant process

There is about 1 to 3 months of preparatory work before proceeding to mini-competition. This period is used to gather data, obtain Health Board approvals and to prepare for the release of the project to mini-competition, so that the bid process can start immediately.

The tasks that will need to be completed in this phase are:

NHS CEFS	
Project Set up	
<p>Health Board (or H&SC Trust) Expresses Interest In using the CEFS The Health Board should contact HFS (Tom Pye or Katheryn Dapre) or email the Fund at EOI@cefscotland.net and express an interest in joining the Fund.</p>	
<p>Shared Scope Of Scheme With CEFS The Health Board should then share the scope of its intentions with HFS/ CEFS . Ideally this will be supported by some Health Board documentation such as an estates strategy, business case or other similar document showing that the status of the project within the Health Board.</p>	
<p>Meeting with Estates, finance and procurement The CEFS will visit the site to meet the Health Board team and see the existing and proposed installation.</p> <p>The CEFS will meet the Health Board estates team, who look after the existing energy installation, so as to know where to obtain technical information, and the level of estates support for the project.</p> <p>The meeting should include the Health Board or Trust finance team to discuss how the CEFS works, the three finance options available, balance sheet treatment and VAT. It is helpful to include the procurement team, to explain the framework and make sure that procurement department are comfortable with the Fund process.</p>	
<p>Feasibility The CEFS will assist suitable projects with an outline feasibility to assure all parties that a self-</p>	

funded solution repaid through guaranteed savings is possible. The feasibility is not intended to define the final scheme, because we seek real innovation from our bidders. Instead the feasibility is intended to determine the likely minimum capital investment, annual payment and annual guaranteed savings that are possible at the site

Membership

The CEFS exists for the NSS and the Health and Social Care Trusts in Northern Ireland, and our support lasts through project preparation, procurement, contract award, installation and annual monitoring for the entire life of the contract. It is important with cradle to grave support that could in all last 17 to 27 years, that the responsibilities of the parties are written down, and the membership agreement does this. Many Health Boards and H&SC Trusts take the membership document to their board or capital investment committees for approval, and this stage needs to be complete before the mini-competition can start.

Once a Health Board or a H&SC Trust is a member, and the feasibility and data collection is done then the OJEU based mini-competition can start.

The Mini competition phase

The Framework procurement is a method of procurement where a number of companies are shortlisted under OJEU. The Fund procurement has tested the market in the first half of 2011 and ten companies have been approved onto the framework, they are:

1. Balfour Beatty Workplace
2. Cofely
3. Cynergis
4. Dalkia
5. EnerG
6. Interserve
7. MCW
8. Mitie
9. Total Gas and Power
10. Vital Energi

In Scotland and Northern Ireland, the CEFS expects that the framework bidders will bid through a local subsidiary or partner, to ensure that projects have local staffing and support that is appropriate to the location of the site being upgraded.

The CEFS is working to re-procure so as to get more contractors on the framework, members will have access to this wider list as soon as it is procured (approx. July 2013).

First stage selection process based on pre-agreed criteria

When a Health Board starts its mini-competition it will ask all bidders on the framework to express interest in the project. Those companies that express interest will be invited to an open day, and then interviews.

The open day is for the Health Board to explain their project to the market place, and to stimulate interest from the framework bidders. It is also the day when bidders start to formulate ideas about how they may best support the Health Board. After allowing about 2 weeks for the formulation of ideas the Health Board then holds interview of all the interested framework bidders.

At the interviews each bidder will each get a time to give their initial ideas to the Health Board show that they are the best company for the Health Board to work with. They will explain their record, their approach and their financial model established during the framework procurement, which explains their costs. The interviews are scored formally and the best scoring companies are selected.

The Health Board will select up to 4 bidders that it would like to work with. Those bidders will be invited to open days with the Health Board estates team and a set of one to one discussions over the period of about one month. In those meetings the Health Board will form a team with each bidder, so there are in effect four teams working together to come up with their best solution for the Health Boards requirements. In the last meeting with each bidder, the team are expected to discuss the proposed bid and make sure its as good as it can be.

When ready the Health Board will release its Invitation to Tender to the four bidders. Each bidder will produce its best bid for the Health Board based on the information and advice given, and present this to the Health Board in the form of a business case. The Health Board and Fund will work together to evaluate the bids, choose the project that offers the best value for money add a recommendation sheet and send it to the Health Board for approval.

Should the Board withhold approval the project will stop, at no cost to the Health Board.

Should the Health Board approve the business case, then that bidder will be given 3 months to complete its design and the contract technical schedules, ready for the Health Board to sign. Should the contract be for the same (or better) price and guaranteed savings, then the Health Board is expected to sign the contract. If it does not, then it will be expected to cover the bidder and fund costs associated with those 3 months.

The installation phase

The installation phase starts with contract award and typically lasts a year. The CEFS will chair monthly technical and project board meetings to help the Health Board manage the installation, and the CEFS will work closely with the Health Board to oversee the tests for practical completion. Only when the installation is proven to meet standards and to perform properly technically and financially will practical completion be approved. Once approved the project enters the operational phase.

The operational phase

When the installation has passed practical completion, then the Health Board starts its payments (the first it has made to anyone, apart from its lawyers, in this project) and the guaranteed savings start. Every month the energy meter readings will be collected by the audit system, and the Fund will monitor performance. Every quarter this will be reviewed more thoroughly and action taken if the contract is under performing. At the end of the year the Fund will review the project over the whole year and certify the level of savings generated. If the savings equal, or exceed the guaranteed savings, then all is well. Should the savings be below the guaranteed level, then the contractor will write the Health Board a cheque for the shortfall.

Should there be any contractual or performance issues at any time with the contract, then the Fund will support the Health Board in dealing with them at no extra cost as the CEFS is there in support for the whole contract.

Fees

The CEFS charges no fees

The CEFS supplies project management, specialised technical, legal, procurement, financial and balance sheet support, our contract, our framework and cradle-to-grave project support to members for free. All that it asks is that Health Boards only use the CEFS if they genuinely wish to upgrade their carbon and energy infrastructure at no net cost to themselves, and the CEFS also asks that if they do so, that the contract includes within its costs a contribution to our legitimate costs.

This means that there is no commitment until the Health Board agrees to appoint a preferred bidder. All project costs including those of the CEFS, are included within the bid presented to the Health Board and covered by guaranteed savings. The Health Board needs pay for nothing (apart from a couple of days of legal due-diligence time) until the project is procured, installed, and proven to be generating the guaranteed savings.

No other procurement route for the NHS, NSS or H&SC Trusts can make this offer.

Joining the Fund

Health Boards wishing to express interest in joining the fund, or be added to the fund update list should email EOI@cefscotland.net .

More information on the fund is on www.cefscotland.net